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FREE TRADE

VERSUS

RECIPROCITY.

BY

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PREFACE.

The following paper was prepared a considerable time ago as an address to be delivered to the Chamber of Commerce, but the strong political feeling which has lately been imported into the question of reciprocity has made it inexpedient to raise a discussion in that arena, and hence these remarks are offered to the public in the form of a pamphlet.

It may seem almost superfluous to re-argue what has been so exhaustively discussed of late by some of our greatest economists and statesmen, but the writer ventures to hope that the point of view from which he has treated it may possess some freshness and interest, in spite of all that has been said. At all events it is written without bias of any kind, and simply with the view of putting forward the truth as it presents itself to the writer.

But for absence from home, this *brochure* would have appeared two months ago.



FREE TRADE v. RECIPROCITY.

I ventured some time ago to make a few remarks in the Chamber of Commerce on the subject of Reciprocity, which were imperfectly reported and criticised rather unfavourably, and it was suggested to me by several of my friends that I ought to explain more fully what value I attached to the views so widely disseminated under the vague name of Reciprocity. The subject is one that has taken hold of the country in no ordinary way, and it is desirable on every account that it should be fully and exhaustively discussed. There can be no doubt that there is a wide spread feeling of disappointment, we might almost say indignation, among the manufacturing districts at the treatment which this country has received of late years from foreign nations. The sanguine hopes entertained in the years following the repeal of the Corn Laws that our liberal policy would be generally imitated abroad have been dismally disappointed, and there has been a marked return of late years to an increasingly protective policy on the part of most Continental nations, as well as the great communities on the other side of the Atlantic. We might almost say there is a settled purpose to shut out British goods from the markets of the leading nations of the world, notwithstanding that we are by far the best customers for their products, and admit them nearly all free of duty into our ports. The period of bad trade which this country

has passed through, though greatly mitigated during the past two years, has sown widely the seeds of discontent with our commercial policy, and arguments are reappearing on all sides which it was supposed the free trade controversy of 1840-50 had finally demolished. No doubt many of these arguments are crude reproductions of ancient fallacies, but others cannot fairly be so described, and it is neither wise nor politic to treat them as only deserving of ridicule; the very fact that every leading nation in the world repudiates our existing free trade policy should make our economical authorities more modest in their assertions. The object of this paper is to enquire whether there is any residuum of truth in the mass of popular opinion that has been dignified by the name of Reciprocity.

But, first, we must ask what is meant by this term. In its plain natural sense it means simply mutual or reciprocal free trade, a consummation which every orthodox economist must ardently desire. Surely there cannot be anyone who does not admit that mutual is better than one-sided free trade. There can be no doubt that in the plain grammatical sense of the words everyone is in favor of reciprocity, but a conventional meaning has come to be attached to this term. It is considered that to favour reciprocity means advocating the protection of native industry, or, at least, attempting by means of retaliatory duties to break down foreign tariffs, and so attain to greater freedom of trade. It is only in that latter sense that I consider the question worth serious treatment. I take it for granted that most intelligent men have long given up the opinion that a country like Great Britain can be benefited by protecting either its agriculture or staple manufactures against foreign competition. From one-third to one-half the food of our people is now imported from abroad, and it is plainly of more importance that the masses should have cheap food, than that the agricultural class should have higher prices for their products. It is equally

clear, that as Great Britain is the greatest exporter of manufactures, she must continue to be the cheapest producer in order to hold her own against the competition of the world. Any protective duties we could levy which would materially raise the prices either of food or manufactures would be a cause of loss, not of gain, to the country at large. The real question that is engaging the attention of men, by no means to be classed among visionaries, is whether we cannot find some appliance to bring pressure to bear upon foreign countries, so that we can make it their own interest to admit our products as freely as we admit theirs.

To form sound opinions upon this point it is needful to put ourselves mentally in the position of foreign nations, who levy heavy import duties for the avowed purpose of protecting native industry, and to ascertain honestly what are the real motives that induce them to follow a course which all our leading authorities have declared to be suicidal. It strikes me that there is great ignorance, and often not a little misrepresentation, of the real motives that actuate such countries as the United States and Canada in following out the policy they have deliberately adopted.

As one who has often argued the point with intelligent Americans in the United States, as well as in this country, I am bound to say that they make out a much better case than is generally supposed here. Speaking broadly, the view which Americans take is that manufacturing industry on a large scale cannot be planted in a new country, mainly inhabited by an agricultural population, without at least a period of protective duties. They hold, and I think justly, that they never could have established vast manufacturing industries in the face of free and open competition with an old and rich country like ours. In colonial days, and up to the war of 1813-14, the United States had few manufactures; they drew their supplies chiefly from Europe, and were mainly an agricultural community, like Australia or New

Zealand, but so great was the suffering caused by the war of 1813-14, and so strong a feeling did it create against this country, that it decided them to cultivate home manufactures even at the cost of paying higher prices. This policy has constantly grown since then, and was enormously stimulated by the Civil War, which made a large revenue necessary, and no way of raising it seemed so easy as to levy it upon foreign goods, and thus indirectly throw a considerable part of the cost of the war upon Europe.

The Americans are perfectly alive to the fact that they pay higher prices than they need do for many kinds of goods in order to build up a system of manufactures, but they argue that they get a full compensation in the great centres of industry that are thereby created, and in the capital and population that are attracted to their country by the profitable employment obtained in those great seats of trade.

It seems clear to me that if the United States had never levied any duties at the custom-house, but adopted *ab initio* a system of absolute and mutual free trade with this country, much of the population and capital that are now employed in Massachusetts and Pennsylvania would have been located in Lancashire, Yorkshire, and our coal and iron regions, producing the goods required by the rural population of America. The United States would have been a vastly magnified Australia or New Zealand, containing a thinly scattered population and a few large commercial cities on the sea-board; but probably some millions of people would have remained in these islands, and made the goods which the American farmer needed, instead of emigrating and building up the manufacturing towns of New England, Pennsylvania, &c. It is quite true that if we look merely at the interest of the individual and not at that of the nation, it is better that these millions of people emigrated and found a home in the new world than that they should have remained to swell the already too dense population of Great Britain; but nations

look at these questions from a different point of view to individuals, and what has been a source of national gain to America has been a cause of national loss to us, and in such a matter as this it is vain to expect absolute identity of interest between two rival nations.

It may be argued that now that the manufacturing system of America is complete, and suffices to supply almost her whole home consumption, she has no longer any interest to bolster it up, but rather to aim at being a cheap producer and compete with England in the open markets of the world. No doubt there is force in this view, and it will gradually gain ground in America and lead to a relaxation of her tariff, especially as her rapidly diminishing debt makes it unnecessary to raise so large a revenue.

The point, however, I wish to insist upon is that the United States, like all new countries, our own colonies included, consider the acquisition of extensive manufacturing industry worth paying a price for, and there is no way in which they can obtain that object in the earlier stages of national growth except by a protective tariff. This motive is so strong, and operates so constantly, that we need never expect to see it disappear, and I have little doubt that when Australia, New Zealand, and our other colonies reach a certain stage of progress they will protect their own manufactures, as Canada is now doing. It seems to me that some of our economists err in supposing that mankind are to be ruled by no principles except such as can be shown logically to facilitate the acquisition of wealth for the individual. Human nature is a very complex thing, and man is not a mere wealth-producing machine. He is influenced, and justly influenced, by motives that appeal to other parts of his nature than his pocket. The Irish farmer prefers to remain at home rather than emigrate to Manitoba, though he can get 100 acres there more easily than five acres in Ireland. The Irish people, as a

whole, would rather have a population of five or six millions in the island, fairly well off than two or three millions employed in cattle grazing, even though they were much better off. There can be no doubt that pure economical laws as they have usually been expounded in this country would point to Ireland becoming ultimately merely a grazing country, for that form of agriculture yields the best return to the labour and capital employed on the land, and best suits the wet climate of the sister isle; but the Irish people, with very natural patriotism, insist upon rooting the peasantry in the soil, and have constrained parliament, led by one of our greatest living economists, to pass a measure which flies in the teeth of English notions of political economy.

A few years ago any such measure as that recently passed would have been pronounced absurd by the press of this country, but now it is seen to be a necessity, and the reason is that human nature is affected by many motives besides those that are purely economical. Love of country, of kindred, of religion, are all motives that rightly influence men, and make them willing to sacrifice something of mere gain, and it is the want of perception of this truth which has led many of our commercial authorities to underrate the powerful motives that sway foreign countries, and even our own colonies, in settling their commercial policy. Most of the countries with which we deal are willing to make a slight individual sacrifice to keep a larger population at home, and give them widely varied industries, and thus make them, as they think, self-sufficing.

No doubt it can be clearly shown that if there were no national distinctions, and all the world were of one family and one speech, it would be an immense boon to abolish custom-houses and tariffs, and leave trade to flow in the channels that nature has marked out for it. But seeing that nations possess a strong corporate existence, and national rivalry and even jealousy are still powerful factors in the

world, and likely to remain so till the millenium, we cannot expect that great changes of commercial policy will be made merely upon abstract economical grounds; and unless each individual nation sees it to be its plain self-interest to adopt perfect freedom of trade, no amount of admonition or exposition on our part will avail much.

The action of France at the present time is, perhaps, the strongest stimulant to the reciprocity movement, though she is only following in the wake of Germany, which raised her tariff considerably last year. I think there is less excuse for old and populous countries, like France and Germany, to lean upon protection than for new countries like the United States. It is fairly open to question whether those countries, with their dense population, cheap and abundant capital, and first-rate technical education, cannot hold their own in many branches of manufacture, as against us in the open field of competition. Undoubtedly, however, the feeling prevails widely on the Continent, that England, with her superior mineral resources, could gradually kill out most of their textile manufactures were there absolute free trade. I am by no means sure that she could not do so in the plainer branches of trade, though probably the French, with their superior taste and climate, could hold their own in the finer goods and articles of taste. Let us suppose for a moment that the Continental view of our manufacturing supremacy is right, and also suppose that Mr. Cobden had convinced all Europe, at the same time that he convinced the British Parliament, that unrestricted free trade was best for the world at large. Under these circumstances we should have seen the gradual transference to this country of nearly all the cotton, woollen, linen, and hardware manufactures of Europe. Lancashire and Yorkshire would have profited enormously. The capitalists of Rouen, and Mulhouse, and Liege, and Chemnitz, and other seats of manufacture, would either have lost their capital or transferred it to England; and their

operatives would have been dispersed and forced to emigrate. Many, probably, would have had to follow their trade to England. Now all this would be pronounced perfectly orthodox by the writers on political economy: population and capital would be seeking the places where they found the best field of employment and the highest remuneration, and the peasants of France and Germany would buy their goods cheaper when made in England than on their native soil, but the respective nations would lose what the individuals gained. France, Germany, &c. would become weaker and England stronger; and that is fatal in the eyes of most foreigners to the adoption of our theories. You will find that with one consent, all nations prefer to keep their people at home, even in the teeth of economical science. I do not, however, go so far as to affirm that the view held on the Continent about the natural supremacy of British manufacturing power is altogether correct. I am not sure but that the pressure of necessity would so stimulate invention and skill in both France and Germany as to retain many branches of trade even in the field of open competition; still I cannot doubt that England would be the greatest gainer under a system of mutual free trade, and I cannot deny that the fears of their manufacturing classes are in some degree justified. There can be little doubt that backward countries like Russia, would have had no manufactures at all, or only the rudest and coarsest kind, had they never adopted protection. England could as surely have prevented their growth as she has that of Irish trade outside of Ulster, or we might add as the north of England has attracted manufacturing industry from the south. Everything, now-a-days, tends to concentrate trade in the centres of population, skilled labour, and wealth. The outlying mills in the glens of Lancashire and Yorkshire have nearly all been killed by the competition of the great towns; and this same principle, which makes it hopeless to start new branches of trade in country districts, makes it equally

impossible for backward and thinly peopled countries to stand the competition of rich and highly organised ones, except with the help of protection.

No doubt on economical grounds it is better that the highlanders of Scotland should be drawn to Glasgow to find employment, and the Irish of Connaught to the towns of Lancashire—they will produce more, and earn more, than it is possible for them to do in their native valleys—but they have to make the sacrifice of leaving the places and associations they love most, to follow the course of trade, which cuts out for itself channels independent of human taste or preference. In any single nation where there is unrestricted freedom, it will be found that the great industries tend more and more to concentrate at certain spots. We submit to it as to an inevitable law. The same rule would hold good in the great field of the world if there were no frontiers or custom-houses, and looking to the natural advantages that England has from her coal and iron, her humid climate, and energetic population, I can hardly doubt that were the whole world as free from artificial barriers as the different parts of the same nation, many, if not most, of the great trades of the world would concentrate here, and gradually supplant or absorb foreign rivals, as the outlying industries of England and Scotland have been extinguished, or absorbed into the great towns.

This truth is widely perceived in all foreign countries, though rarely alluded to in ours. Our writers confine their attention to the folly of foreigners in paying higher prices than they need if they would take the same articles from us, they overlook the correlative fact that if we can produce cheaper, we should either starve out their trade, or force the foreign capitalists, with their employes, to come over to us and be gradually absorbed into the British nation, as the Huguenots were after the revocation of the Edict of Nantes. Whenever matters come to this pass, we may safely predict that national and patriotic considerations will carry the day, and mere economical arguments will go to the winds.

At this point one naturally asks the question is there never a point at which the interest of foreign nations, even from a national and patriotic point of view, is in favour of free trade? I would reply that it becomes their interest when they not only supply their home market but produce a considerable surplus for export abroad. It is the necessity of being a large exporter which makes it the undoubted interest of England to practice and preach free trade, and just as other countries reach that position their policy will also change, and imitate ours. It may be added that France already occupies that position; it is true she is a large exporter of fine goods and articles of taste, and in regard to them protection does her no good and is unnecessary, but in the commoner articles, such as calico, plain woollens and hardware, it is probable that England would gradually beat her out of her home market under mutual free trade, and she knows it and fears it, especially as these trades are much heavier and employ much more capital and labour than the manufacture of fancy articles for the rich. No country can be a large exporter of the commoner kinds of manufacture that has a high protective tariff. It keeps her from being a cheap producer; and speaking broadly, a country has to choose between protection and a trade limited to its home market on the one hand, or free trade and the markets of the world on the other. Great Britain has wisely adopted the latter alternative—indeed she had no choice; she could not import food and raw materials from abroad for her teeming population unless she created a great market abroad for her goods which she sent in payment; but if poor and backward countries were to imitate her policy they would not gain the foreign markets, but would probably lose most of their home trade.

We cannot too clearly remember that the position of this country is almost unique among the nations of the earth. Its population is nearly double what it can maintain with

home grown food, and most of the raw materials of its industry have also to be imported. It must of necessity find outlets abroad for its manufactures, or else part with its population. It is just in proportion as it can find these outlets that it can continue to grow in wealth and population. Supposing that we had always enjoyed mutual free trade with America, but few of our people need have emigrated. We might have been at this day exporting two or three hundred millions a year of goods, in place of twenty or thirty, and taking back two or three hundred millions of food and raw materials, in place of eighty to a hundred. Our population might have been forty to fifty millions, in place of thirty-five. There is absolutely no limit to the growth of wealth and population in a country like this, except by the limitation or closing of foreign markets. The degree to which we can send the produce of our labour abroad measures the degree to which we can expand and multiply at home.

Unfortunately nearly every country of importance is fully alive to this, and tries with all its might to prevent that desirable result, and the consequence is that we are thrown increasingly upon the poor undeveloped countries of the world, and our younger Colonies, for the expansion of our trade. But this is by no means a desperate position. The world is large, a great part of it is poor, undeveloped and semi-civilized, and in these vast regions our trade is constantly growing. India, China, and Japan can absorb almost limitless quantities of goods; indeed nearly the whole of Asia, Africa, South America, and Australia are open to our trade. As we are the cheapest producers we control these great markets. The nations that rely upon protective tariffs cannot touch us. The competition of the United States, which used to be formidable in China, has almost died out since she raised her tariff so much; and Germany, which used to export considerably to the East, has lost that trade,

just as she shut us out of her home market, by raising her tariff. This is a world of compensations. No country has unmixed advantages, and as we suffer from the unjust treatment of nations that are politically on an equality with ourselves, we gain an increasing control of the trade of the poorer and dependent part of the world. We have also gained the undisputed control of the carrying trade. Since the introduction of steam, our unrivalled facilities for ship building and navigation have given us not merely preponderance, but absolute supremacy on the ocean. America, once a close competitor with us for ocean traffic, has entirely lost it since she advanced her tariff, and will never regain it till she adopts free trade. It is some comfort to think that a steady adherence to a liberal commercial policy has brought us many advantages to compensate for the ill treatment we have met at the hands of the stronger nations. So far as one can judge, the course of British trade in the future will be mainly one of expansion with the more backward parts of the world, and contraction with the more highly civilized nations, so far at least as the export of our manufactures is concerned.

This leads me to the point with which this enquiry started. Have we any means of bringing pressure to bear upon those nations which treat us most unjustly? Can we punish them by retaliation, or otherwise, so as to make them lower their tariffs, and admit our goods? The gist of the whole reciprocity agitation turns upon this. I would remark here, that scant justice is measured out to those who advocate retaliation. It is usually assumed that all they wish, or expect, is simply to forbid the import of really necessary articles from abroad, because the foreigner will not take our goods in exchange; that they wish, for instance, to cut off the food supply which comes from America because America will not take our calicoes. Truly that policy would be like cutting off the nose to spite the cheek, and I never

met or heard of any rational man who advocates it. It is therefore a poor way of reasoning to meet the more intelligent advocates of reciprocity by fastening on them an absurdity they entirely disclaim. What able men, such as Mr. Ecroyd, hope to see attained is, to bring temporary pressure upon countries like France which will suffice to make it their interest to adopt either entire or partial free trade. They hold that if we threatened to tax the French wines, brandies, silks and laces, and did so in earnest unless they reduced their tariff on our goods, we should create in France so strong an agitation among powerful classes of the community in favour of free trade that it would be adopted. To give effect to this policy it would be needful to adopt it in case of refusal, and perhaps for a term of years to pay a little more for some articles of luxury, and divert some English money into home channels instead of foreign; but the contention is that sooner, or later, the suffering classes in France would compel their government to capitulate, and then we would enjoy the advantage of full instead of partial free trade.

The opponents of this policy generally confine their attention to the first stage of this process, and decline to look to the second. They enlarge upon the evil—if such it can be called—of making wines, brandies, &c. dearer to the consumer; but they do not reply to the argument that it may be worth paying this price, for a short time, if it effects the end of opening the French markets freely to our goods, and thereby benefiting millions of producers. It does seem to me that the wisdom or unwisdom, of this policy turns upon its practicability, rather than upon abstract scientific dogmas. We receive from France some forty-two millions worth of commodities, chiefly luxuries, and we send her twenty-eight millions of goods, of which sixteen are British products, and represent the subsistence of, perhaps, half a million of people. It seems to us that the addition of a

tax on these luxuries, even if it fell partly upon the consumers, who are mostly rich people, would be more than compensated if the French markets were shortly re-opened to our trade.

The difficulty that meets me is more one of practicability and expediency than of the abstract deductions of economical science. I have considerable doubt whether it is possible for this country to adopt a retaliatory policy, with sufficient consistency and firmness, to produce much concession in return. Our whole custom-house arrangements have been so long framed upon the principle of unshaken faith in the efficacy of free trade that it is doubtful if it is expedient to retrace our steps, unless we have much clearer views of what we aim at than are ever likely to be attained in a free country like ours, where every class and party makes itself heard. Foreign nations would pay no respect to mere tinkering with the tariff for the purpose of annoying them. Any policy adopted to break down their selfishness would need to be firm, resolute, and, if need be, prolonged. All manner of difficult questions would arise as between one country and another. It would be next to impossible to prevent the transshipment of goods, and a discriminating tariff would be found hardly possible. I am bound to say that I have seen no scheme yet proposed that appears really feasible, and it would be a great mistake to adopt a weak, vacillating policy that would rob us of the benefit of consistency without giving solid advantage in return. Besides, we are not labouring under any dangerous decadence of trade. The country is undoubtedly reviving, all the tests of national progress are again becoming satisfactory. We are emerging from a most severe and prolonged crisis, and the arguments in favour of a change of policy which were plausible some years ago, are passing away. Further, any power that we possess to retaliate on foreign nations is restricted to what may be called luxuries, or, at least, not

prime necessities of life, and these are but a small part of our imports. No practical statesman would now propose to tax the food products and raw materials of America, and we therefore cannot touch that nation which, of all others, treats us most harshly.

Upon the whole, I lean to the opinion that unless matters become much worse than they are now, it is not worth while to disturb the policy, at once simple and noble, that we have now followed for a generation. I venture to express the belief that a time of increased prosperity is at hand—indeed had Providence vouchsafed to us the blessing of a good harvest this year trade would probably have revived in a marked degree—even as matters stand the outlook is not unpromising if the world remains at peace, and patience and perseverance in a straightforward and honest policy will meet its reward.

It may, however, not be amiss for a few moments to take a retrospective glance, and consider what might have been the result of applying the principle of reciprocal free trade to our colonies from their infancy onwards. There was a time with all of them when they entirely depended on the mother country for their supply of manufactured goods. They were at the outset merely agricultural communities, and it may fairly be maintained, as a just political principle, that, in return for the territory this country acquired for them, and the protection afforded them in their earlier stages, they might have been required to enter a national Zollverein, and neither levy duties on British goods, nor have any of their products taxed on arrival here. There was a stage with all our colonies when this would have been gladly agreed to; it may well be doubted whether the bargain would have been kept when the vigorous children attained maturity; but, for argument's sake, suppose such a policy had been practicable, and conceive the magnificent results that would have

accrued to the mother country. Our Australian colonies, including New Zealand, at present are mainly dependent upon this country for their supplies of manufactured goods, and, though their population is only a little over $2\frac{1}{2}$ millions, they take nearly as much from us as the United States with their population of 50 millions; in other words, the people of Australia consume about £7 per head of British imports, against 10s per head consumed in the United States. Supposing that the United States had remained a colony, and a part of an Anglo-Saxon Zollverein, it is not absurd to suppose that they should be consuming nearly as much per head of our goods as the people of Australia, located so much further off, now do. If they took £5 per head, they would receive 250 millions per annum on the present scale of their population, but, unquestionably, had this policy been pursued, a large part of the manufacturing population of the States would have been located in Great Britain. Old England would have stood to them in the same relation which New England now does; their population might have been, say 40 millions and ours 45, and the additional 10 millions of our population would have drawn their subsistence from the American colonists in return for clothing them. This would have been a specimen of the evolution of pure economical laws untouched by political considerations. But, under no conceivable circumstances, is it likely that America would have so long repressed the desire for national independence—the dream of an Anglo-Saxon Zollverein never has been, and we fear never will be, realized. But one can readily see how immensely it is for the interest of this country to retain the trade of the colonies, and if any feasible means could be devised even yet whereby Australia, New Zealand, &c. could be persuaded to remain as good customers as they are now, it would be of first rate importance.

It seems not unlikely that Australia a hundred years

hence may be nearly as populous as the United States now are; supposing, however, it then contains 30 millions of prosperous people, and that it can be persuaded to follow Free Trade with Great Britain, and also supposing, as would no doubt be the case, that the rougher and more bulky manufactures would gradually spring up there as population increased, even without protection, so that the consumption was reduced to, say £5 per head, our trade would be 150 millions of exports, and no doubt an equivalent amount of imports, say equal to half our entire foreign trade, as at present existing. The only possibility of such a desirable event taking place, turns upon Australia having no desire for national independence, and being content to be a part of a great Anglo-Saxon empire. But if, as is much more likely when she comes to man's estate, she should wish to enter the republic of nations on equal terms, I fear that economical considerations will be outweighed by political. Her statesmen will point out that by a protective tariff, she will perforce draw to her shores the population and capital employed in manufacturing for her abroad, and her sheep farmers and gold miners will in all probability tax themselves for some years, as they are already beginning to do, to draw this additional source of wealth and greatness to their country. All questions of this kind we cannot too often remember have two sides, one affecting the individual, the other the state, and what appears to be the interest of the former, is not always the interest of the latter.

Let me illustrate, by again referring to Australia. Speaking broadly, she has now two millions of people (not counting New Zealand) nearly all agriculturists or gold miners. She produces little except agricultural produce and gold, and what she does not consume she exports to pay for clothing and luxuries. Let us say for argument's sake that she produces in all eighty millions worth, of which she consumes forty and exports forty to pay for her imports from England and other

countries, which are valued at that figure on landing. It is quite clear that if she could draw to her shores the people who produce the forty millions she imports, she would nearly double her population and national wealth. We say *nearly*, for no doubt her first population of farmers and miners would lose something, at least in the earlier stages of building up manufacturing industry, for they would have to pay more than they do at present; they would suffer as the American western farmers do who pay higher prices for iron and calico than they could buy them at from Great Britain; but let it be borne in mind—and this is the crucial point—the state would gain the accession of a manufacturing population of say one to two millions, producing not only the forty millions of goods at present consumed by her agricultural population, but all the additional goods required for their own consumption. The producers of food, instead of sending their surplus to England to exchange against the goods of Bradford and Manchester, would send it to the new manufacturing centres at home, and the spectacle would be presented of their foreign trade declining while the commonwealth grew in wealth and population. Of course it will be replied that the farmers of Australia would be great fools to tax themselves merely to draw people to their country to make their clothing at a greater cost than England is willing to make it at now, and this argument will have weight with them so long as there is no contrariety of interest between Australia and England. So long as the colony feels towards the mother country, as Wales feels towards England, or Lincolnshire feels towards Yorkshire, there is little chance of this policy being acted on. Mr. Mongredien shows conclusively in his admirable little book on free trade how absurd it would be for one part of England to protect itself against another, and he argues that it is equally absurd for one country to protect itself against another, but he fails to perceive, or at least make allowance for the new and weighty considerations that come into play

when the interests of the state are concerned. There can be little doubt that if Australia were an independent state she could make herself more strong and populous by attracting a manufacturing population and building up native industries as the United States has done. To revert to my illustration. At the present time Australia supports two millions of people earning, let us say, £40 per head. Under protection she might increase that, let us say to be on the safe side, to three millions earning only £35 per head. I suppose that the extra cost of the native goods amounts to a tax of £5 per head, and that is an enormous allowance, and would only hold good in the earlier years when the system was being fostered, for as soon as the system was built up the immense saving on freight across the ocean, both on the goods and raw produce, would probably counter-balance the extra cost of manufacturing. If we suppose then that the three millions of population earn £35 per head, as against £40 per head earned by two millions at present, the income of the whole state would be 105 millions as against 80 millions at present. I believe this describes in a rough and inexact manner the class of considerations that turns the scale against free trade with most foreign nations. They prefer to have a large aggregate population, and increased national wealth and greatness, to a smaller population and more wealth to the individual. France would, for instance, rather have 36 millions of people earning, let us assume, £20 per head, than 30 millions earning say £22 per head. If we could convince her five millions of peasant proprietors that by buying their clothing and tools in England they would save say £2 per head, but at the cost of destroying their manufacturing centres, and forcing the operatives to emigrate to Great Britain or America, they would with one consent say: Keep them at home, and let us pay the extra cost; we would rather have 36 millions of people than 30 millions a little better off.

Mr. Mongredien points out the absurdity of Wales building up a Customs frontier as against England in order to force its people to make pottery at home at a higher cost than they can do in Staffordshire, or calico at a higher cost than they can do in Lancashire; but this is just what Wales would probably do in some measure if she were an independent nation, and what I suspect the sister isle would attempt if she were cut loose from England. I am much surprised that so little weight is allowed to these considerations by our leading economists; they are sufficiently powerful to overrule all the weighty arguments advanced in favour of international free trade; they appeal to some of the strongest feelings of human nature, and it is as foolish to ignore them as for a physician, in prescribing for a disease, to ignore the constitution of his patient.

I would take this opportunity of saying that the maxims of political economy are but lame guides for the statesman when taken *per se*, and without due regard to the other relations that men sustain to each other. I speak as one brought up in the school of Adam Smith and John Stuart Mill, and I venture to surmise that political economy has not yet found its proper place in the scale of sciences. It has yet to be correlated with those others which deal with man as a member of society, as being subject, and rightly subject, to powerful influence on the side of religion, family, and country—legislation that is based upon no higher conception of man than that of a producer or consumer of wealth will signally fail—our economical authorities and their imitators, who are often mere doctrinaires, lecture foreign nations because they do not legislate on pure economical grounds—they often only display their ignorance in doing so—their standpoint is purely insular, and they palm off as universal axioms what are only deductions from our insular experience. Our earlier economists deduced their formulas principally from British experience, and many

of these are only true as applied to the set of circumstances that surround ourselves; at least, they need large qualifications and exceptions when applied to other countries. To form correct conclusions all round, this science needs to be looked at, and its problems treated, from many and different standpoints, and I venture to say that, as this process goes on, we shall be less surprised that able and intelligent statesmen in America, France, and Germany demur to some of our dogmas. I would further observe that political economy is far from being an exact science—its formulas are nearly always subject to important limitations, and when they are applied by mere theorists to solve practical problems they often conduct to conclusions the reverse of true. To a knowledge of the science in the abstract, there must be added a practical knowledge of business, or, at least, of public affairs, to make a man able to apply its dicta intelligently—it is more like the science of politics, or what has lately come to be called sociology, and those who know it best will apply its formulas with the greatest caution. Some of the current maxims which pass muster as infallible axioms are utterly misleading when applied to the practical problems of commerce—let me refer to one which is constantly quoted, viz. that all trade is barter, and that imports and exports pay for each other—and to another which one constantly meets with, viz. that an excess of imports is a proof of a wealthy and prosperous nation, and excess of exports of a poor and unprosperous one. Both of these maxims have a certain degree of truth when stated broadly, but are utterly misleading when applied to the commercial phenomena of particular years and particular nations.

I will take leave to illustrate this by reference to the recent experience of British and American trade. For convenience sake I will take the latter first, and examine the sixteen years that have elapsed since the conclusion of their

civil war, and divide them into two periods of eight years each. The former was a time of great inflation and extravagant expenditure; the issue of inconvertible paper money caused by the war had produced a fictitious prosperity, and led to heavy imports of European luxuries, while the great cotton crop, the chief article of export, was several years much reduced. America for these eight years imported in value nearly double what she exported—if the theory that all trade is barter is true, she was lucky in getting 40s worth of goods for every 20s she paid with—and if the further theory that excess of imports is a sign of wealth be true she was rolling in wealth. But what was the true explanation? She was contracting enormous indebtedness in Europe—she was exporting national bonds, state bonds, railway securities, &c. to the extent of hundreds of millions sterling, and laying a foundation for a time of great suffering and distress—her exports and imports no doubt balanced, but in the same way as the expenditure of a spendthrift, who pays by giving I.O.U.'s.

The time came when these debts had to be liquidated—the commercial crisis from 1873 to 1878 exploded the fabric of fictitious prosperity, severe thrift became the order of the day—imports fell off prodigiously, exports largely increased, and showed for several years a heavy surplus, she became a creditor instead of a debtor to Europe, and her bonds and securities flowed back as fast as they went out; but a trifling proportion of the Federal debt is now held in Europe, and much fewer good securities of all kinds than eight years ago; in addition to all which she has supplied herself with an ample gold currency. America has in fact been laying the true foundations of national prosperity the past eight years at a wonderful pace. But if we have to go by the formulas I have already referred to, we should have to believe the absurdity that her diminished imports and increased exports were a sign of growing poverty, that she was in fact only

getting 10s worth of goods in return for say 20s she was paying to the foreigner.

The commercial history of England the last ten years affords a similar illustration—it may be divided into two sections, that of 1870-73, which were four years of great prosperity, and 1874-79, which were six years of great depression. In the first four our exports and imports, when proper allowances were made for re-export of foreign produce, for freight and for interest on our immense capital invested abroad, left a large annual surplus, as Mr. Mongredien has admirably shown—indeed out of the great profits of our trade we were investing fresh capital abroad to the extent of about 100 millions annually. No doubt much of that was lent to bankrupt states and lost, but much more was well invested and returns large interest—the country was really prospering. She was not eating or drinking the balance due to her from abroad as she has done since then. Then followed the six years of bad trade. All the figures were reversed—the imports immensely increased—our exports largely fell off—the balance against this country was on the average about sixty millions worse than for the previous four years.

The cause of this was obvious—a succession of bad harvests caused us to import far more food than usual—the foreigner received 40 or 50 millions a year more for food than formerly—and instead of taking our goods in return, he raised his tariffs against us, and took less of our goods than before. All the features of our trade became unfavourable, we might almost say alarming, and yet strange to say we ought to have been congratulating ourselves on our growing wealth if the formula be accepted that excess of imports is the test of a flourishing country. No doubt there is a measure of truth in that formula in so far as our large investments in former years enabled us to pay for the prodigious amount of food we required, but certainly it would have been a far truer sign of national prosperity if we had imported less, and

exported more. The fact is that the trading of a country resembles in many respects the expenditure of a private individual—where we see a large expenditure maintained for many years we conclude justly that there must be a large income to sustain it, but an inflated expenditure for a few years often shows only the recklessness of a spendthrift, and is the prelude to bankruptcy, so the large expenditure of the United States on European luxuries in 1865 to 1872 was a bad sign, and heralded the crisis that followed, and the excessive amount of our imports from 1874 to 1880 also showed that this country was in a very unprosperous state.

As I have already mentioned, however, the past year or two the tide has shown signs of turning—our exports increased last year by fully 30 millions, and promise to be larger again this year, and had the harvest turned out well our imports would have fallen off considerably—bad harvests are a dispensation of Providence, and we can only submit to them with patience, but there are other and important respects in which our national wealth might be greatly increased apart from foreign trade altogether. I refer to the excessive and needless waste of energy and resource that this country sustains from the excessive intemperance of a large part of the people. Our average expenditure in alcoholic drinks has been 130 millions sterling annually for several years, and the indirect waste from enfeebled labour, pauperism and crime may not improbably represent 50 millions more. Deduct from that total of 180 millions what the state takes in taxation, say roughly 30 millions, and there remains a tax of 150 millions voluntarily borne by the community, or about the value of half the consumption of food in the United Kingdom. Suppose that one half of that could be saved by the community, what a vista of prosperity and social improvement would be gained.

Seventy-five millions a year would be added to the expenditure on food, clothing, houses, furniture, &c. or saved

for profitable investment. All the unemployed labour in the country might be set in motion, and most of the trades suddenly galvanized into prosperity. I have often marvelled that economists have directed so little attention to what is so fundamental to a nation's prosperity. No expansion of our foreign trade, that is at all possible, would yield so rich a result, and if the same energy was directed to this homely question, that is now devoted to visionary attempts to force reciprocity on unwilling nations, far more substantial good would result.

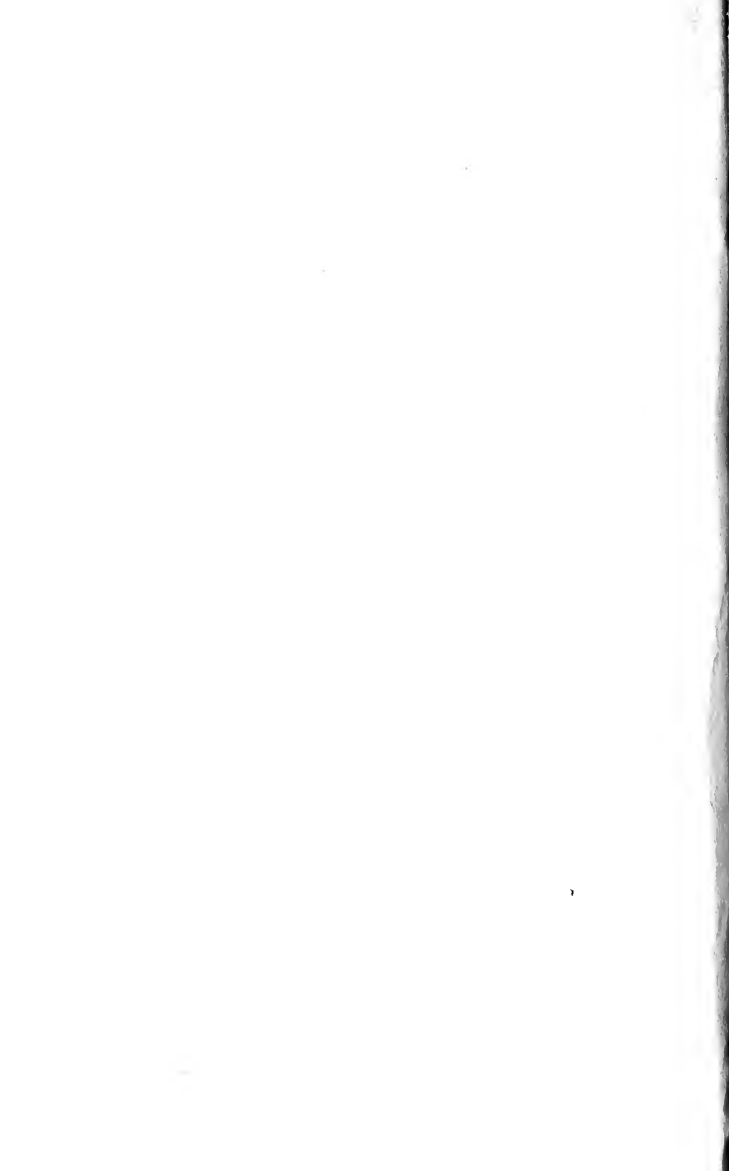
I would add, in conclusion, that my best hopes for the development of our foreign trade depend upon the continuance of international peace. No small part of the heavy tariffs imposed by foreign countries are for the temporary exigencies of war expenditure, and the interest on debts thus created; any great war throws back for many years the tendency towards freer trade; the civil war in America has probably cost this country hundreds of millions in the vast reduction of our export trade thereby caused. The present action of France is to a large extent the reflex influence of her disastrous war ten years ago, and the huge addition it made to her annual expenditure. Russia has also added to her tariff to meet the cost of the Turkish war, and so all round the compass. No country is so deeply interested in universal peace as we are, and none feels so quickly the disastrous waste of warfare. If a period of prolonged peace now sets in a general reduction of taxes may be expected, and some relaxation of tariffs will come about gradually merely on revenue grounds. This is certain to come about before long in America, for their national debt is being rapidly paid off, and we will share in the prosperity of the United States I may say almost in spite of their protectionist policy.

For these various reasons I have no great fear for the future of this country—the severe lessons of the past six

years were necessary and useful—they checked a prodigality and recklessness that were eating out the heart of the nation, and they have prepared the way for valuable social reforms, and will bring about still greater. Our advancement in national wealth has been certainly rapid the past twenty years, and what the country needs is not more wealth but a wider and better use of it. If the masses of our people had more of the thrift that prevails in France and Germany, and if the accumulation of wealth in London was more fairly spread through the country, there would be no cause to complain.

I must ask pardon in conclusion if I have diverged a little from the strict title of my paper—the subjects alluded to were all more or less allied to it, and whether or not the reader agrees with me, I hope he will allow that an honest attempt has been made to treat the subject candidly, and without any tinge of party or political feeling.







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